



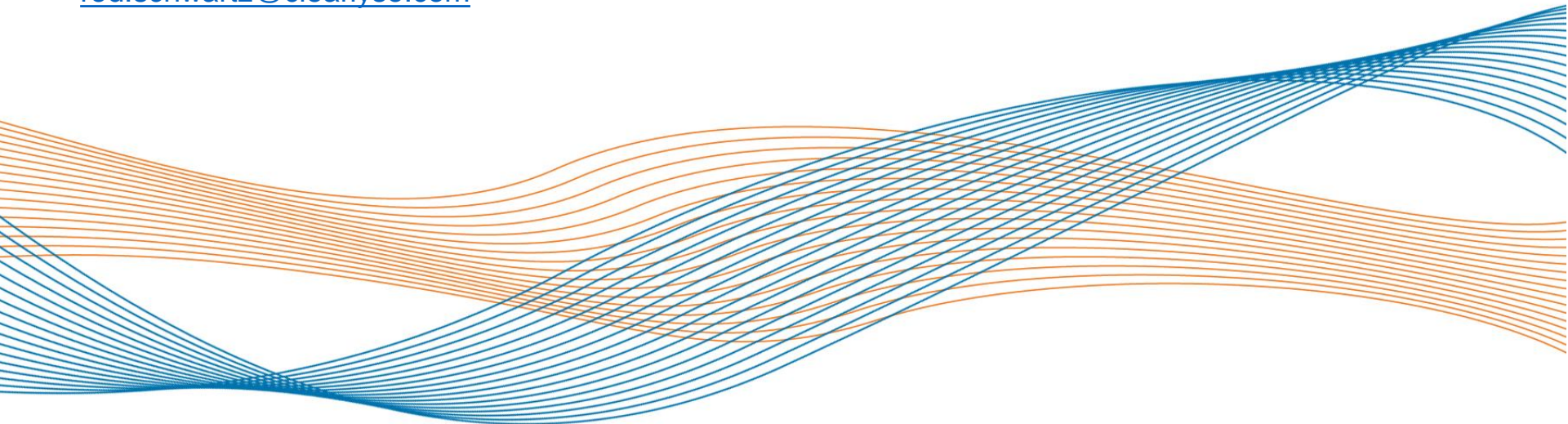
Bringing impact to investment

What we do, how we do it and where are we heading?
European Investment Bank Institute, “Midday Goes Social”

Rodney Schwartz, 15 September 2016

CEO, ClearlySo

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Objectives for today

- Introduce myself
- Provide a philosophical background to these developments
- Offer some thoughts on this thing called “social” or impact investment and discuss the ClearlySo approach
- Briefly explain what ClearlySo does and how it has become Europe’s leading impact investment bank
- Provide some examples of these wide-ranging enterprises and analyse some funding situations in detail
- **Anything else?**

Caveats

- Combine practical experience with theory and ClearlySo activities with what we see elsewhere—I am not an academic!
- Predominantly a UK oriented view, for the most part—although informed by experience elsewhere. I am not really an American!
- Want to let you know what our plans are—to gain your feedback and see if there is some way that some of us can help each other

My own career trajectory

PaineWebber



LEHMAN BROTHERS



Impact investment: Philosophical underpinnings

A sustainability crisis.....the traditional view



There is a broader “Western” sustainability crisis

Unsustainable systems

Environmental

Financial

Institutional

Familial/personal

Unjust societies

Unsuccessful economies



Widespread
signs of social
unrest



The old models/systems for fixing things do not work
(and how we do things is not divinely decreed!):

The government model



The old models/systems for fixing
things do not work:
The charity model

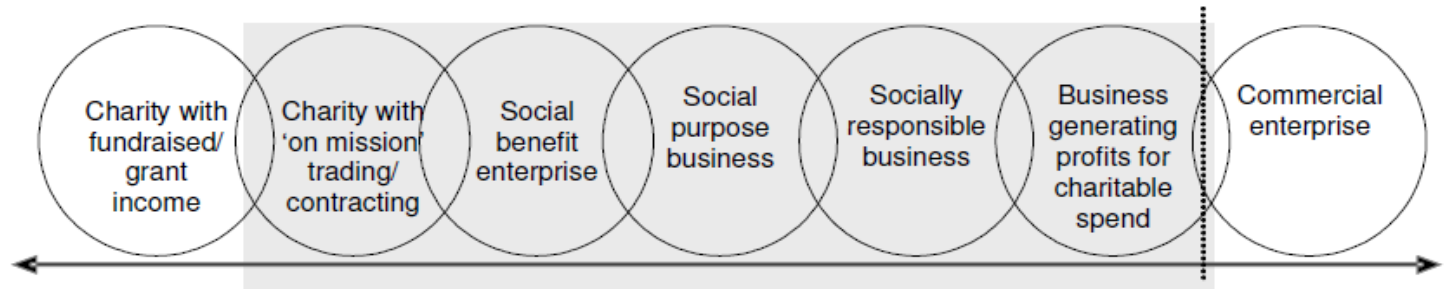


The old models/systems for
fixing things do not work:
The unfettered free-market model

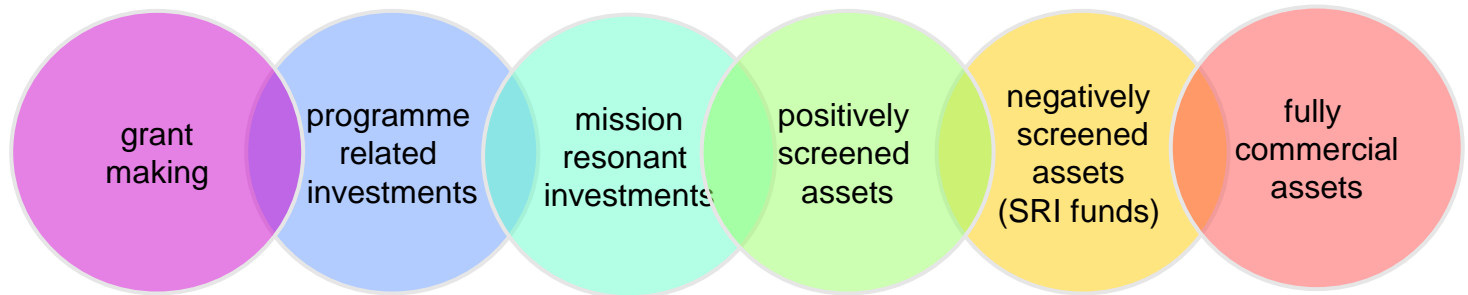
*A new enterprise and investment model:
Key components and ClearlySo beliefs*

Two views of the same basic idea—according to most

By type of organisation



By type of investment



Things we say at ClearlySo



High-impact
Transformative
Disruptive
Impact-centred
Impact-focused
Extraordinary



entrepreneurs

businesses

investors

funds

3D investing

Risk, return and impact

Third dimension

Externalities

Things we don't say

Social

business
enterprise
impact investing
entrepreneur

‘The sector’

Corporate business and social
business

Impact as an asset class



And what is “social” anyway?

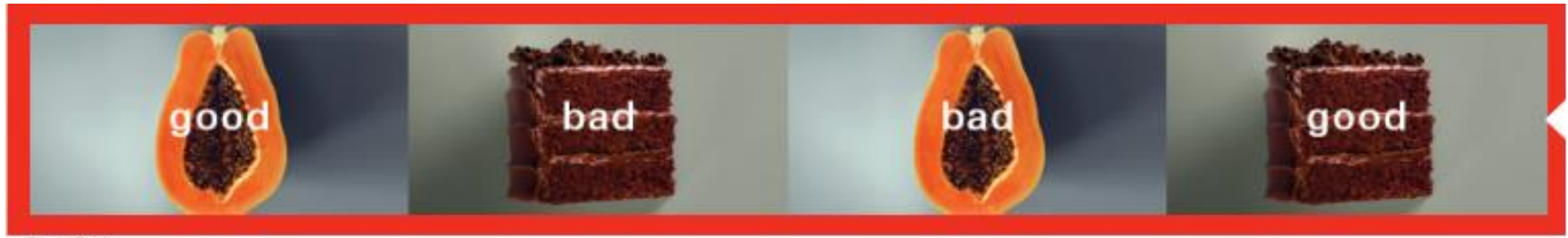


Image by HSBG Holdings plc.



We're not all tempted by the same things. What one person finds wonderful will be looked at with distaste by someone else. But a difference of opinion can be a healthy thing. At HSBC we encounter the particular preferences of millions of customers around the world every day. And it's our firm belief that there's no problem having different views, just potential.

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JOHN LEWIS
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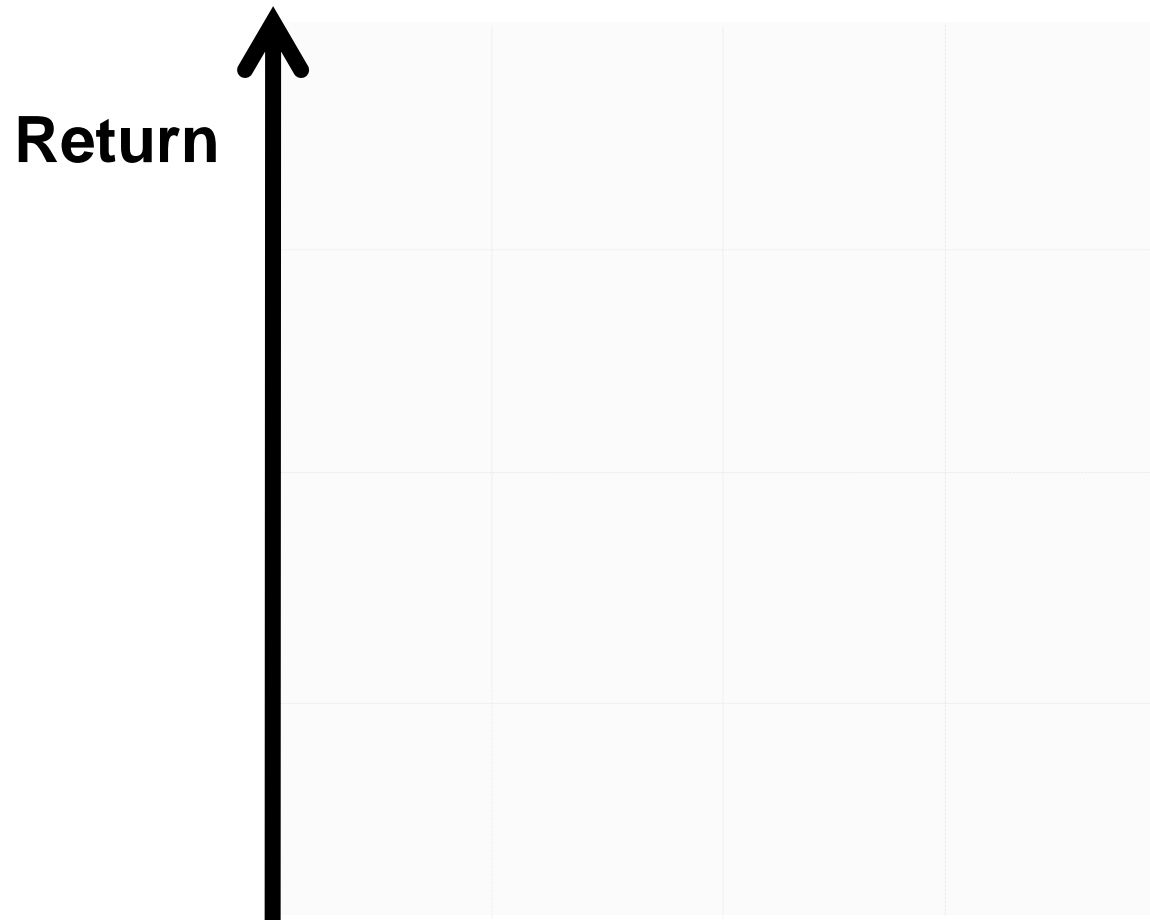
What is it that makes this all work?

- Legitimacy/moral authority
- Access to free labour
- Ability to sell products at higher prices
- Easier access to publicity
- **Access to below market rate capital !!**

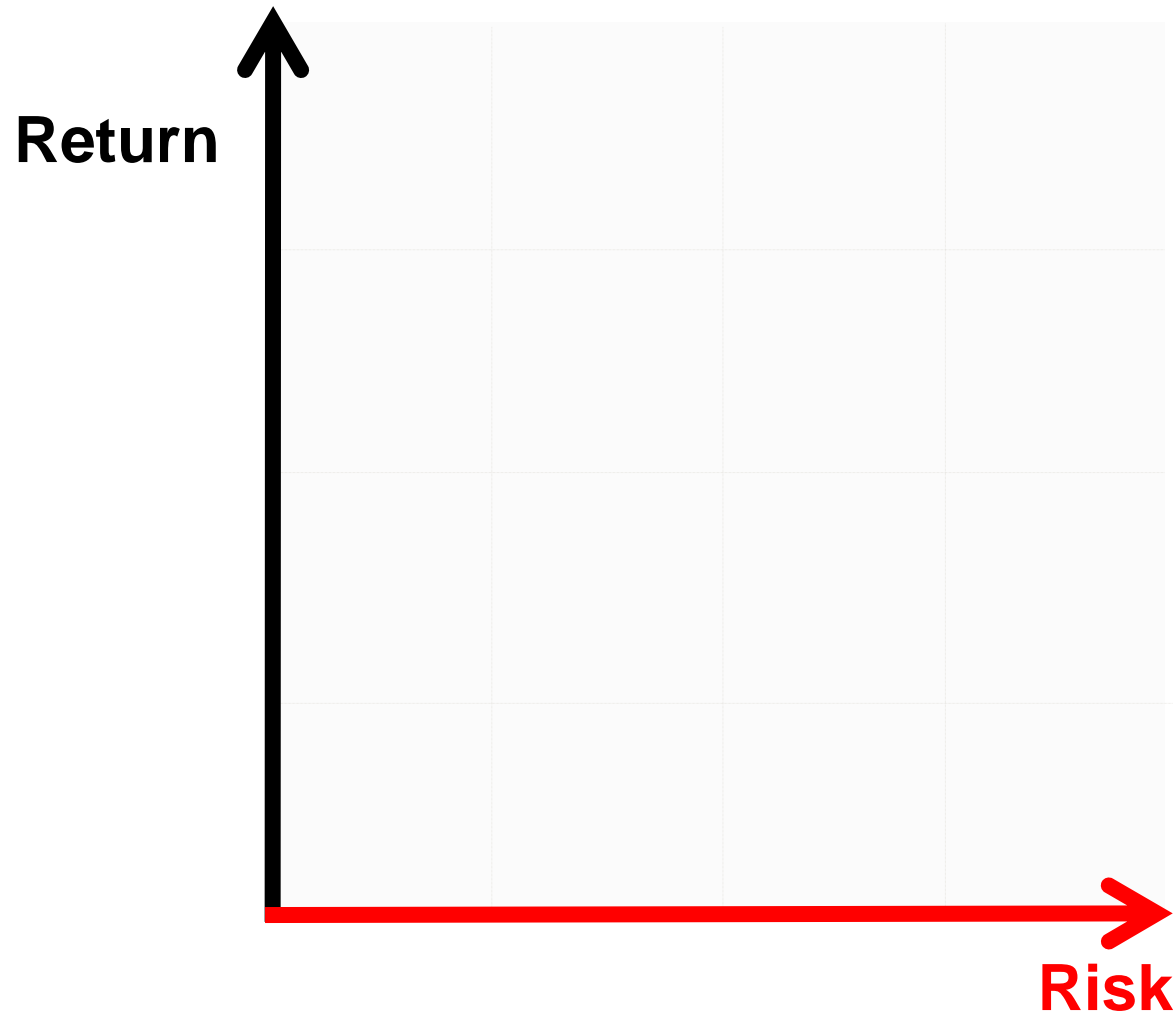


The interplay of these many factors, but especially **below market rate capital** and **intentional social impacts** is what creates the conditions for successful **impact investment**

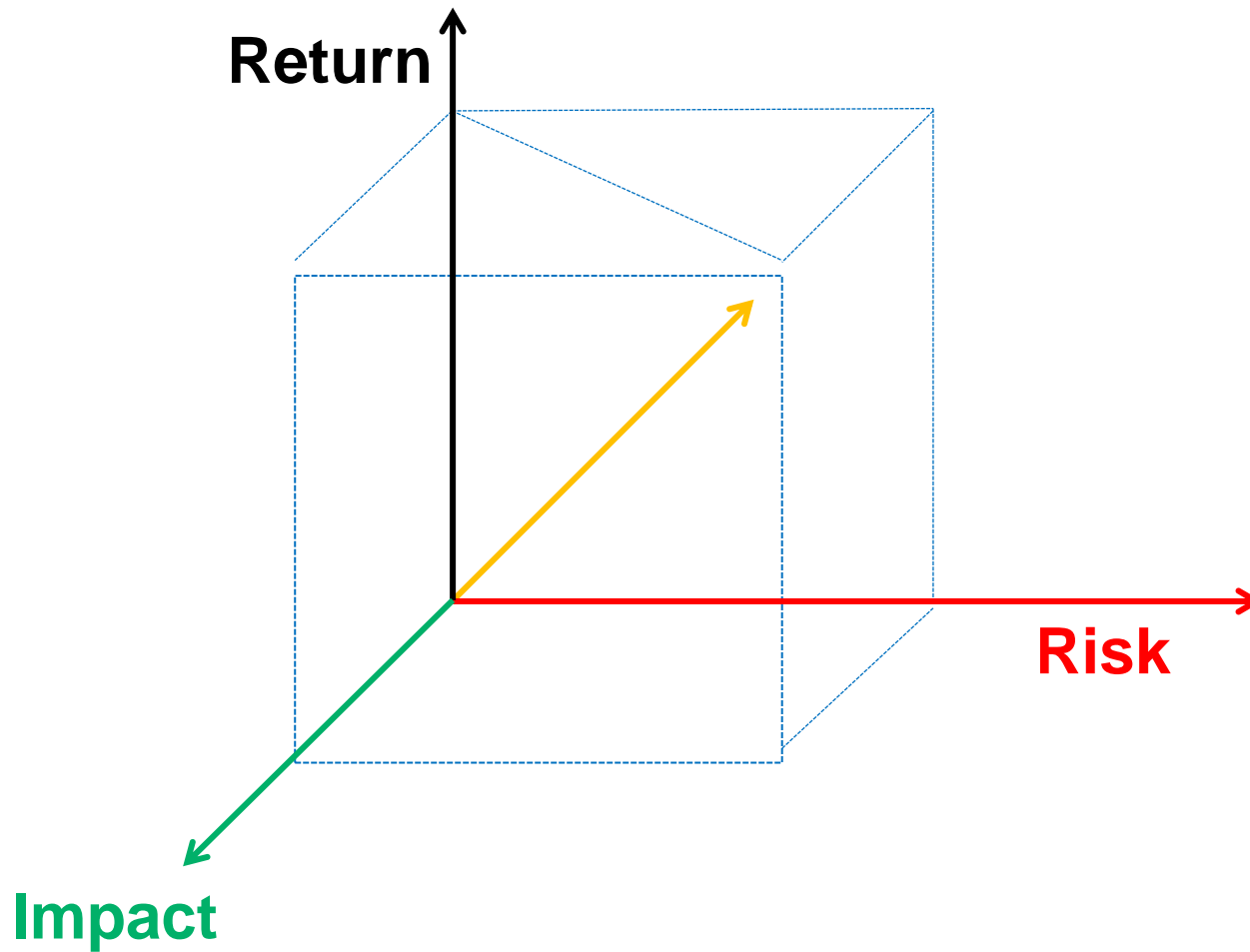
The world of investment – Before 1980



The world of investment – 1980-2008



Since 2008: “3D Investing”



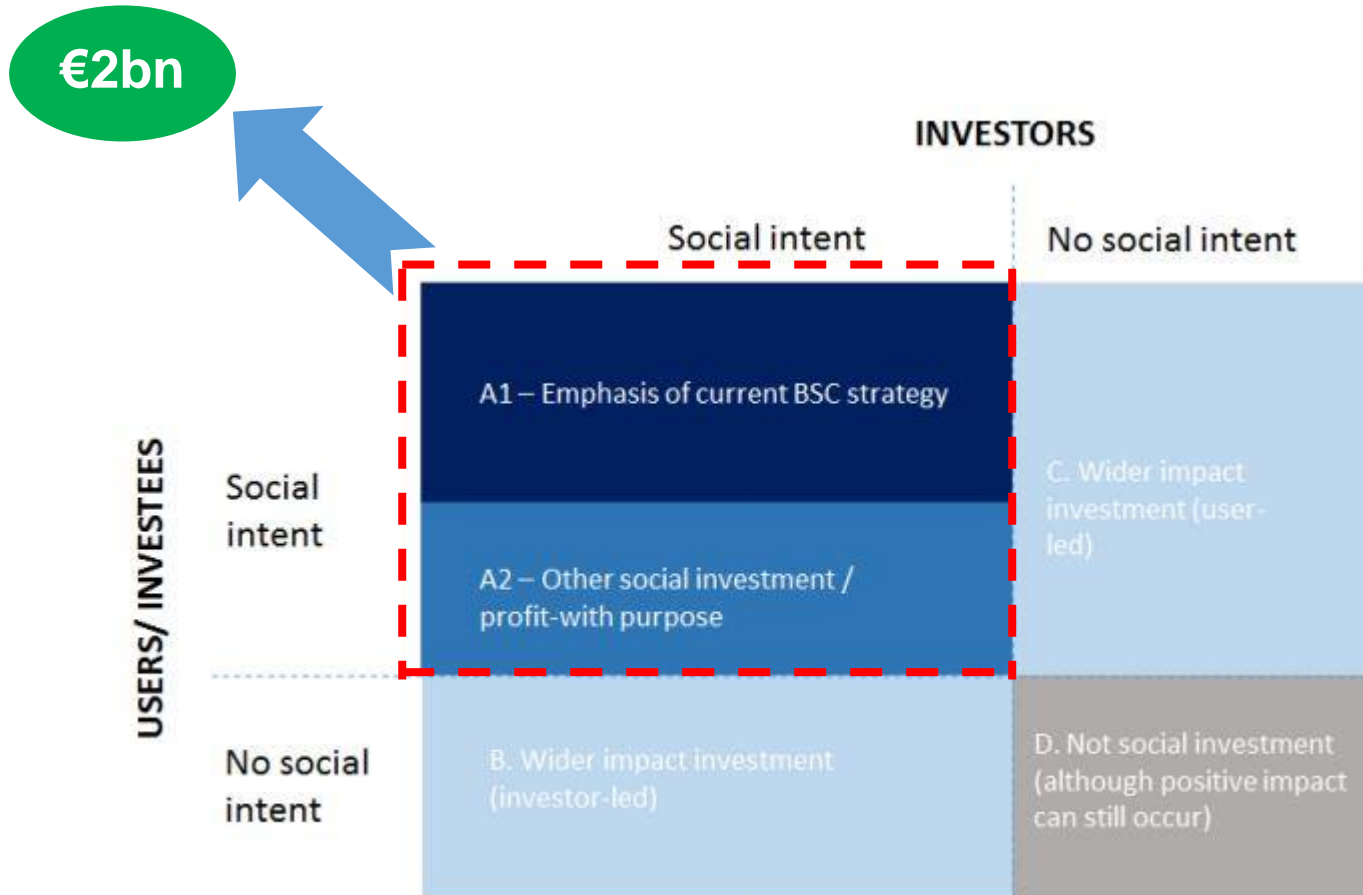
There is no “impact see-saw”

JustGiving™

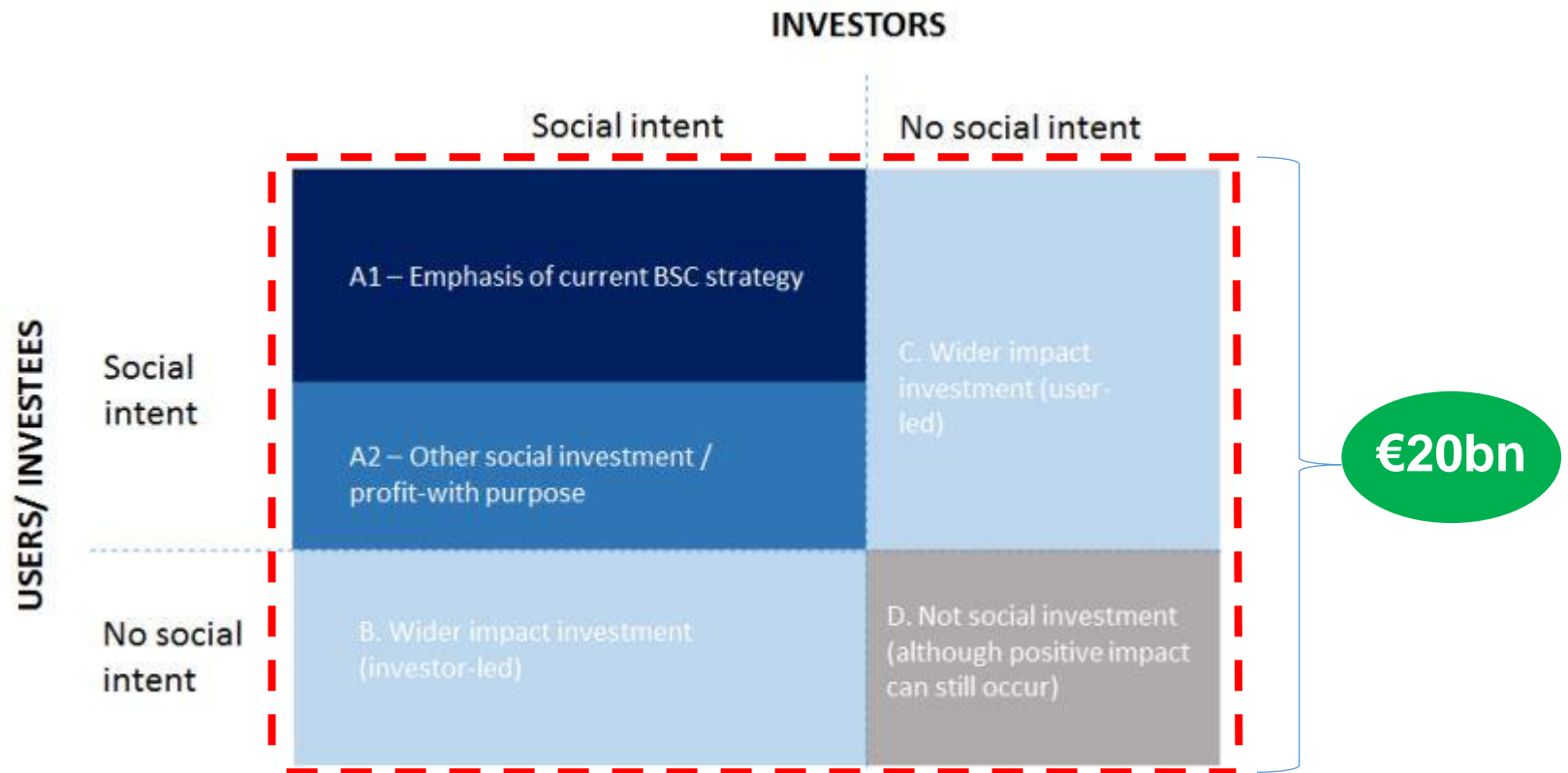


We believe impact and return are positively correlated!

UK impact investment market: Narrow definition

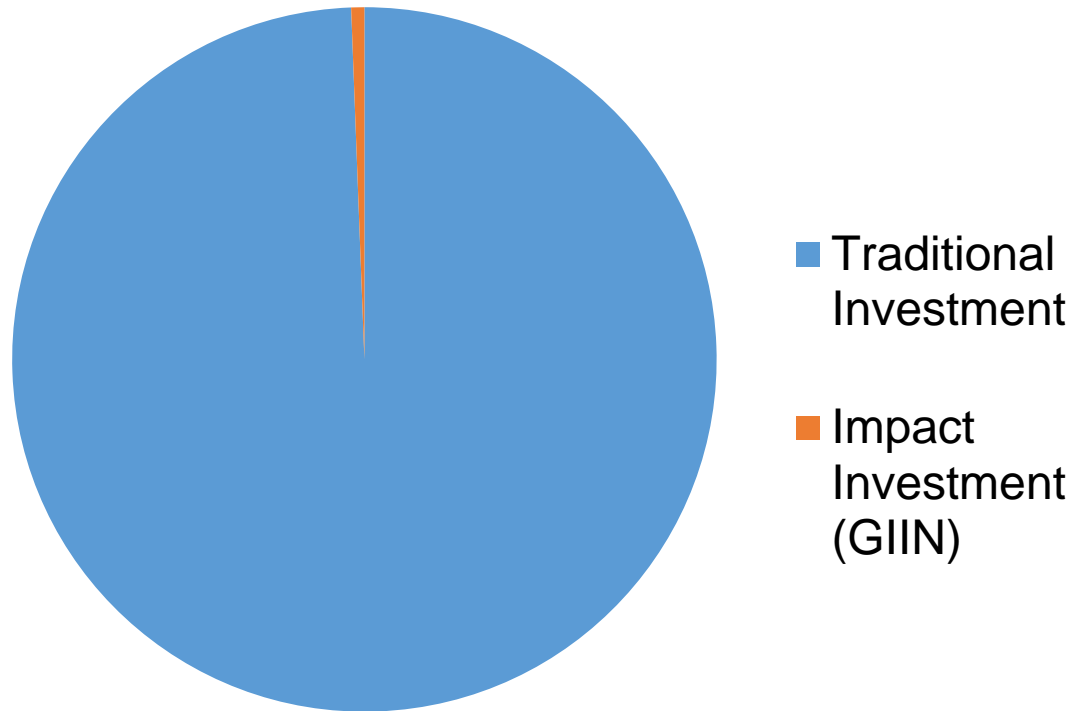


UK impact investment market: Broad (CS) definition



But, actually, what is the point?

Global Managed Assets = €115tn



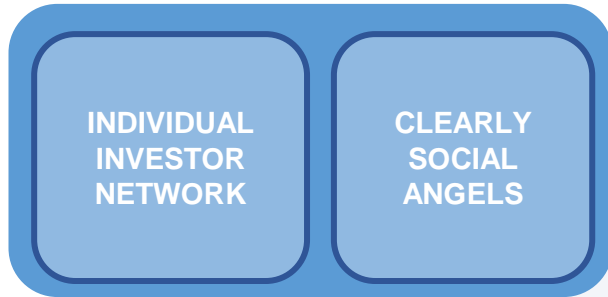
And what does ClearlySo actually do?

ClearlySo

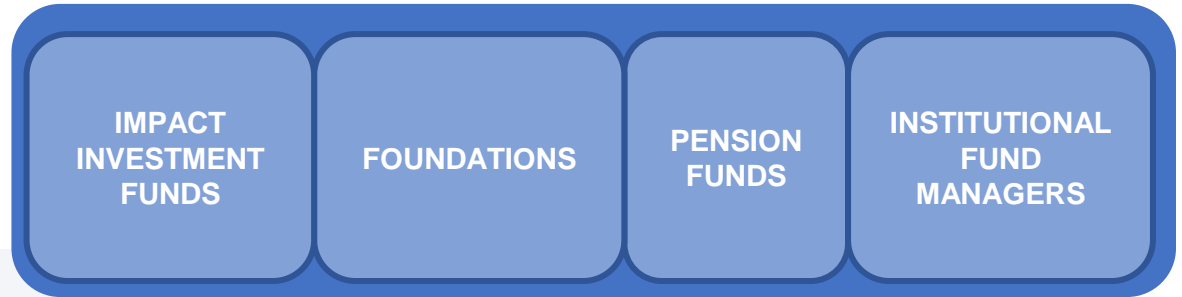
What does ClearlySo actually do?



INDIVIDUAL INVESTORS



INSTITUTIONAL INVESTORS

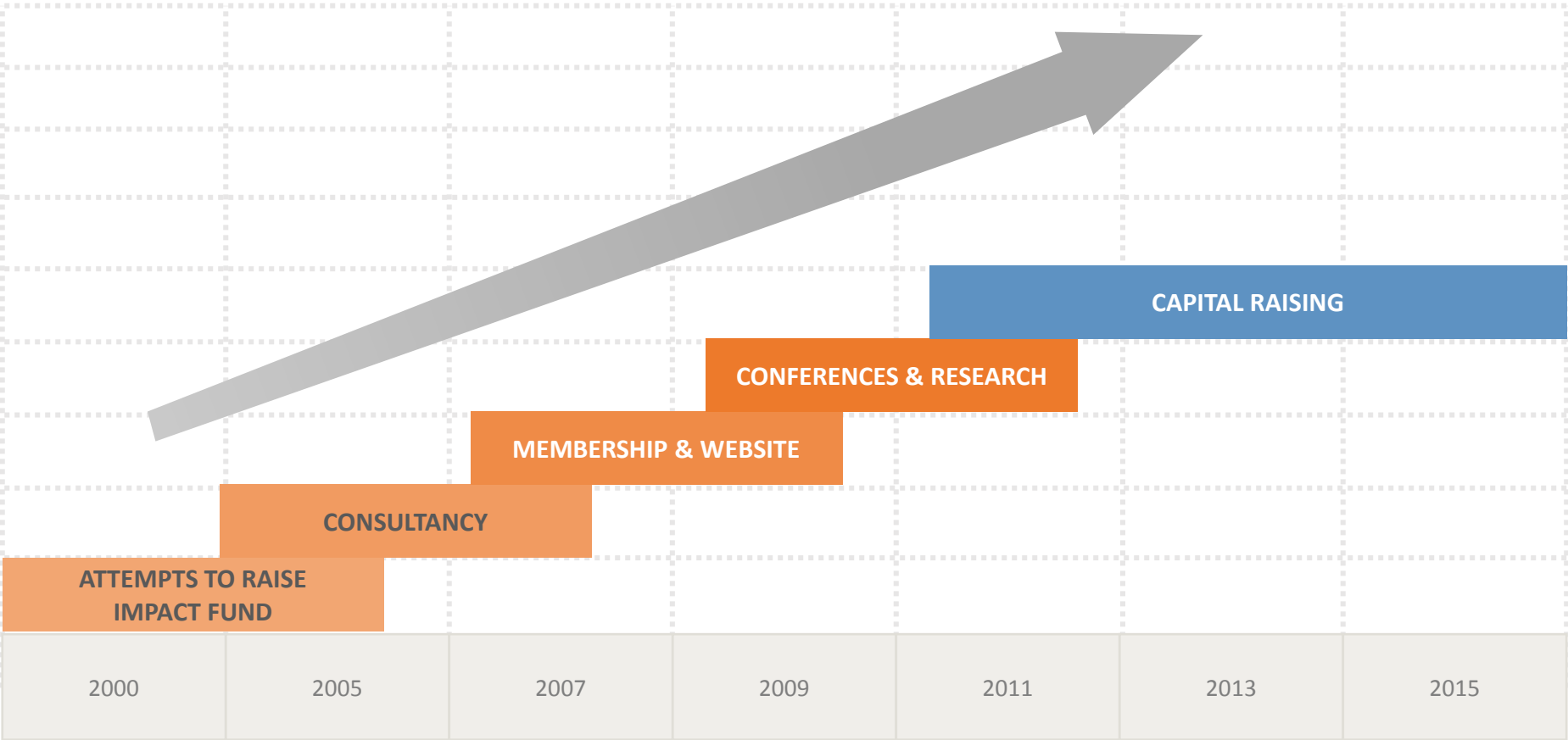


ClearlySo



CLEARLYSO CLIENT GROUPS

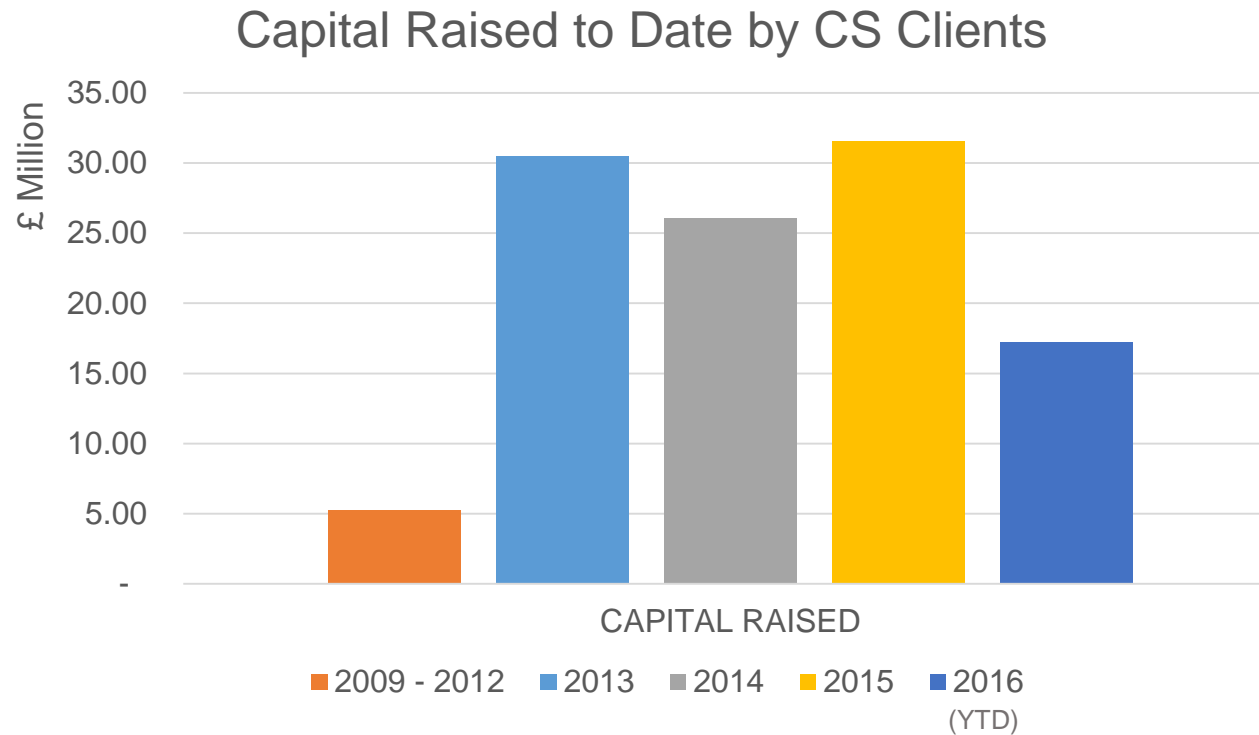
Historical background to ClearlySo



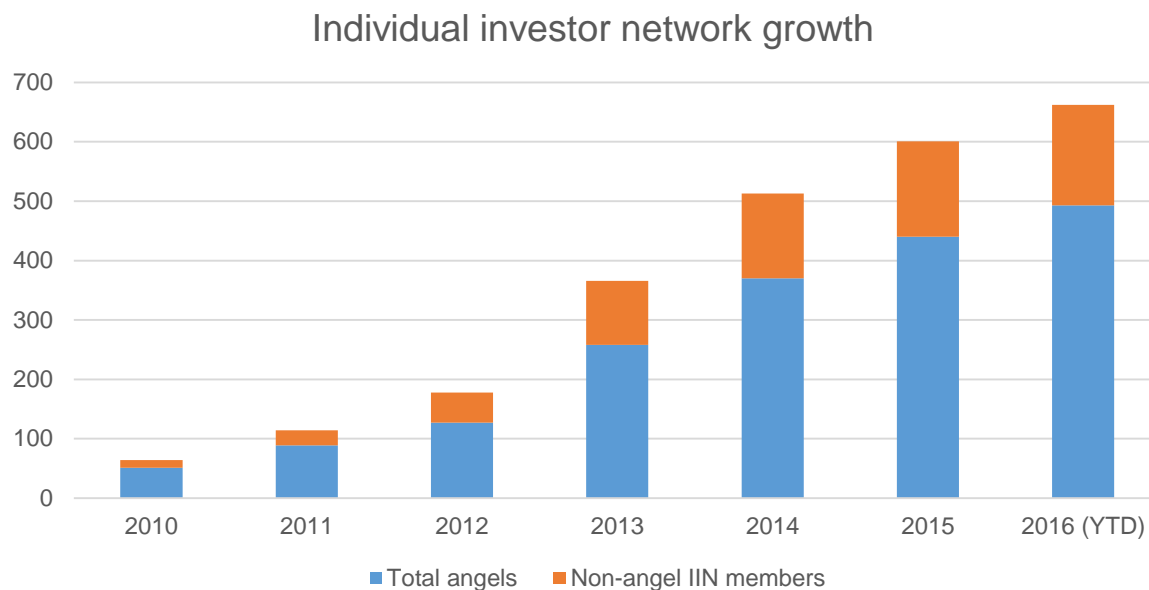
ClearlySo Positioning

- ClearlySo aspires to bring impact to all investing
- ClearlySo works with firms of all shapes, sizes and legal structures
- ClearlySo cares about impact and is nearly indifferent to, and very humble about, its ability to discern intent
- ClearlySo is professional, practical and commercial in its work
- ClearlySo looks like its clients—we are what we preach

Capital raised for clients



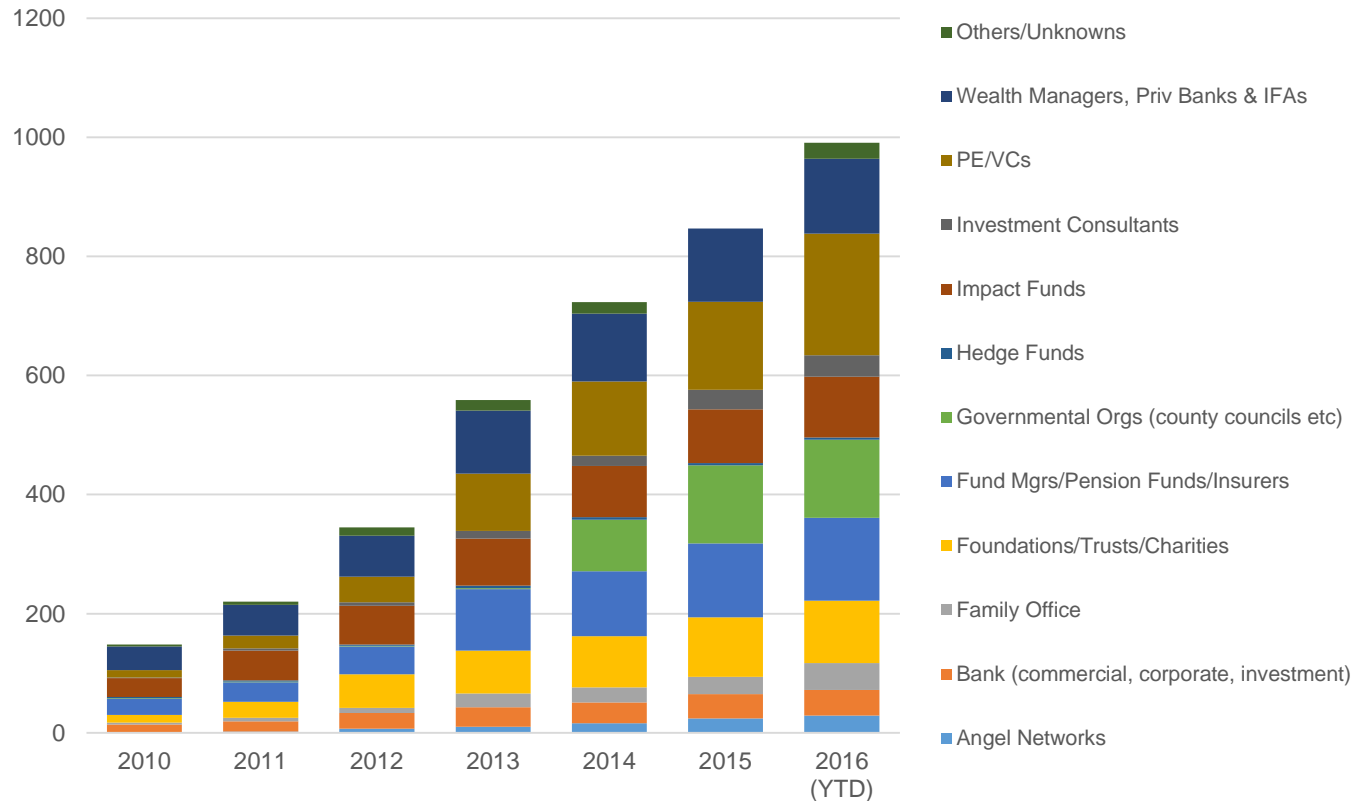
Capital raised from..... (1)



Year	2010	2011	2012	2013	2014	2015	2016
Clearly Social Angels	-	-	20	27	34	39	44
Individual Investor Network (IIN)	64	114	178	366	513	562	618
Total Network	64	114	198	393	547	601	662

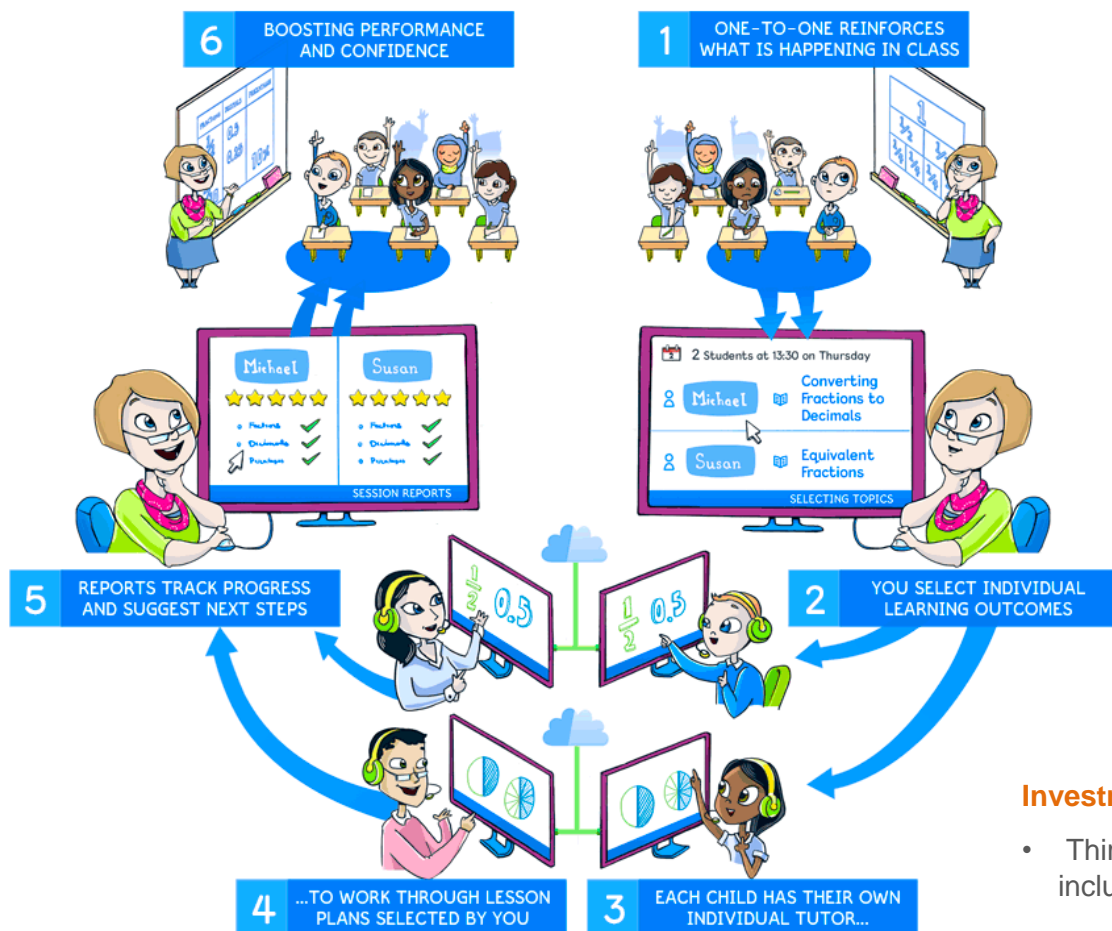
Capital raised from..... (2)

Institutional investor network growth



Year	2010	2011	2012	2013	2014	2015	2016
Total Institutional Network	148	220	345	559	723	847	991

Some case studies



Business Model

- Technology platform connects global numeracy specialists to students from disadvantaged backgrounds in schools across the UK for one-to-one maths tuition
- Schools purchase programmes for individual students, and all sessions take place in school, in addition to normal maths lessons, accelerating what the children are learning in class.
- Launched in September 2013, Third Space was used in over 70 schools across 30 Local Authorities before seeking investment

Social Impact

- It offers low-cost tuition to disadvantaged students lagging behind in maths, and is highly scalable
- The Education Endowment Foundation are funding a 2-year Randomised Control Trial to fund 600 pupils through the programme, tracking attainment of socially disadvantaged students at risk of failure.

Investment Raised

- Third Space worked with ClearlySo to raise £435k, including £200k from Clearly Social Angels.

leso (previously Psychology Online) is an online mental health platform

ClearlySo supported their capital raising in a round total of £1 million

The new name for

PsychologyOnline

The UK's leading provider of live online
one-to-one Cognitive Behavioural
Therapy

Business Model

- Ieso uses the internet to deliver 1-to-1 psychotherapy. It is faster, more flexible and more efficient than conventional methods. They sell to the NHS and private individuals.
- The technique has excellent clinical evidence from a 300 patient trial published in the Lancet in 2009.
- The main therapy deployed in mental health is Cognitive Behavioural Therapy (CBT). The NHS spends £300m on CBT but there are long waiting lists as the supply of therapy cannot meet demand.

Social Impact

- 40% of all ill health is mental health and the NHS cannot meet demand for CBT.
- Ieso can reduce waiting lists and deliver therapy to people in a way that is faster, more efficient and more flexible.
- The therapist network provides flexible homeworking for psychotherapists, regardless of location.

Investment raised

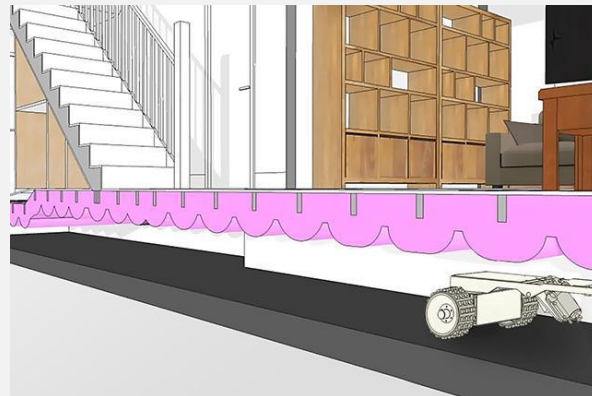
- Raised £1m in first round of capital raising
- Clearly Social Angels put in £185k alongside other group such as Cambridge Angels
- Investment will be used to support their sales activity to more NHS institutions and private customers



Deal closed date: February 2016
Environment, Energy Efficiency,
Building Insulation

Q-Bot installs underfloor insulation using a robotic solution giving occupants improved health, comfort and lower energy bills

Q-Bot engaged with ClearlySo as a corporate advisor and to help them raise £400k equity investment



Business Model

- Q-bot installs underfloor insulation using a robotic solution that enters the building through an air-vent or other exterior entry point which is much less disruptive to the occupants than lifting floorboards inside the property
- Q-bot's initial target market is the social landlord sector holding 600,000 properties that are hard to treat with energy efficiency measures

Social/Environmental Impact

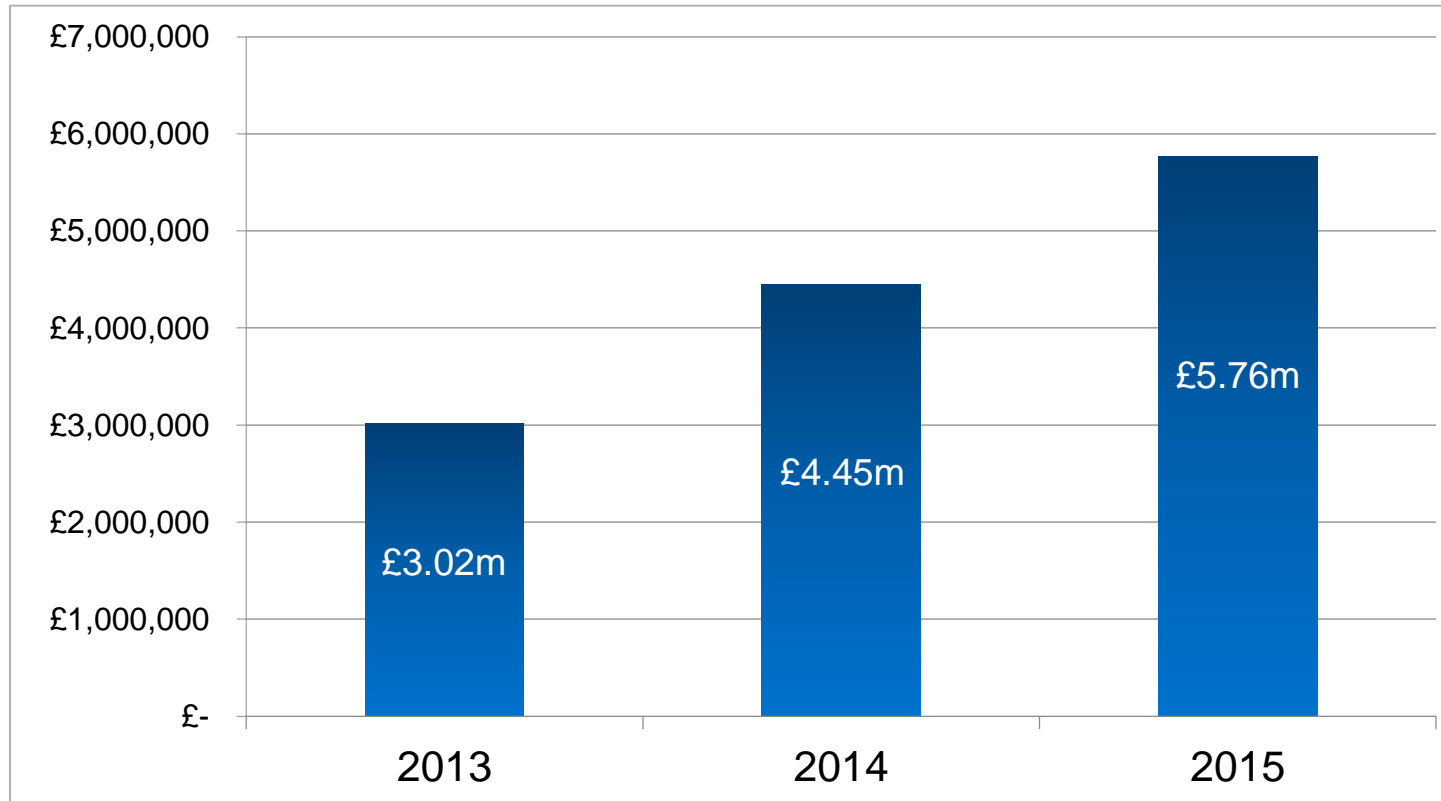
- Improved economic well-being: improved insulation enables households to potentially reduce heating bills
- Extending life-expectancy and improving general levels of health
- Decreasing carbon emissions: heating currently accounts for 25% of the UK's CO2 emissions, improved insulation reduces the need for heating and therefore reduces emissions
- Employment opportunities in the construction sector

Investment Raised

- ClearlySo helped Q-Bot to raise £390k equity investment from HNWIs within its CSA network
- Q-Bot will use these funds to expand the team, increase delivery capacity and secure industry accreditations
- A number of the investors had a depth of experience in the Cleantech industry and have brought valuable contacts and expertise to the company.

Tech-for-Good Investment raised to date

ClearlySo has facilitated **25** tech for good clients raise over **£13m** since 2013



RAPANUI

Deal closed date: 2015
Retail, consumer
products, employment,
sustainability

A sustainable clothing brand with a conscience
Rapanui secured £300k impact investment, including £100k match funding from UnLtd, working with ClearlySo through the Big Venture Challenge



Business Model

- Rapanui is a super-ethical fashion business set up by two entrepreneurs in their shed on the Isle of Wight.
- They sell affordable men's, women's and children's fashion produced in their factory, including custom T-shirt and fabric printing.
- The company is making a splash in mainstream news as a company with a conscience and is growing quickly – creating employment and raising the profile of eco fashion.

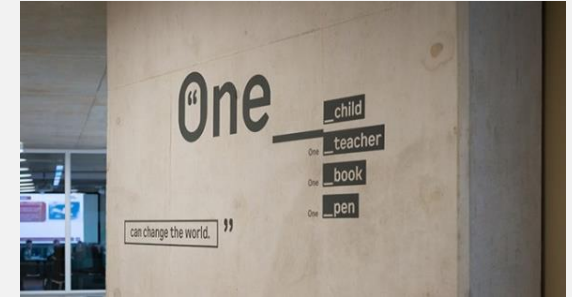
Social Impact

- Every product designed and produced by Rapanui is made from organic or recycled materials in an ethically accredited, wind-powered factory.
- Rapanui clothes can be traced right back through the supply chain, from seed to shop – and they incentivise people to send back clothes at the end of their life, where customers freepost their clothes back in return for store credit.
- With fair wages policies and a training scheme for long-term unemployed young people on the Isle of Wight, they are creating social impact in how they make the clothes as well as where they come from.

Investment Raised

- Through the Big Venture Challenge, ClearlySo were able to work with Rapanui to raise investment for their high-impact business.
- Rapanui secured £300k impact investment, including £100k match funding from UnLtd.
- With this injection of investment, the company were able to ramp up their production and create more product lines.

Unique social property business completes 5th UK equity raise



Business Model

- Ethical Property Company (EPC) provides office, event and retail space to over 1000 organisations each year.
- They own and manage 24 centres across England, Scotland and Wales.
- Clients include Friends of the Earth, re-cycle, Afghanaid, Free Tibet and Big Difference International.

Social Impact

- EPC provides flexible rent and leases to tenants, improving their long-term stability.
- EPC's 'Quintessentials' set out management and governance:
 1. The triple bottom line reporting
 2. Ethical client criteria
 3. Ethical management
 4. Ethical governance
 5. Transparent reporting

Investment raised

- EPC raised £1.75m of equity from institutional and individual investors.
- EPC engaged ClearlySo for an advisory mandate through the ICRF, followed by a capital raise. The first of several which will enable EPC to grow very rapidly
- ClearlySo supported EPC with the business plan, financial model, pricing and distribution to investors.

East Midlands based charity raises £9m to build 150 units of move-on accommodation



Homelessness prevention



Drug and alcohol work



Street outreach



Training & employment



Social enterprises and opportunity



Accommodation

Business Model

- Framework Housing Association (Framework) is a charity and specialist housing association based in the East Midlands dedicated to helping homeless people and those at risk of becoming homeless to positively change the direction of their lives.

Social Impact

- Framework provides accommodation, community-based support, street outreach, specialist treatment services, training and work skills to more than 11,000 people a year.

Investment raised

- Framework raised £9m of debt from impact-focused and mainstream investors to build 150 units of move-on accommodation.
- ClearlySo raised £5.75m for Framework and helped them structure the capital raising vehicle, build the financial and operating model for the project, create marketing materials, introduced Framework to investors and negotiated on terms.

The case of Justgiving

- www.justgiving.com; the world leader in facilitating charitable giving online with over \$4 billion having been donated
- UK based, now expanding globally
- Successful, profitable and growing rapidly—and began with £6m of angel investment, now worth £150m+
- Consider the trade-off between the charity and social enterprise model in this case
- Desire to be a new type of social business but also allow for a proper exit within five years (like The Body Shop)

The HCT case (Part 1)

- www.hctgroup.co.uk is one of the UK's largest social enterprises, founded in 1982; £40+ million of turnover
- Provides bus services now across the UK and Channel Islands; modest beginnings in London Borough of Hackney
- Unable to issue shares due to charity structure and totally reliant on commercial banks for secured finance
- Approached ClearlySo in late 2007—The challenge was to replace the banks at no extra cost

HCT Group case (2010—Nicholls, SBS)

Investor	Date	Social Loan	Fixed Loan	Total Amount
Bridges Ventures Bridges Social Entrepreneurs' Fund (BSEF)	February 2010	£1m		£1m
Bridges Social Entrepreneurs' Fund (BSEF)	October 2010		£0.5m	£0.5m
Total : Bridges Social Entrepreneurs' Fund (BSEF)		£1m	£0.5m	£1.5m
Social Investment Business(SIB), Futurebuilders Fund	February 2010		£1m	£1m
Social Investment Business (SIB), Futurebuilders Fund	February 2010	£0.5m		£0.5m
Total : Social Investment Business (SIB), Futurebuilders Fund		£0.5m	£1m	£1.5m
Big Issue Invest (BII), Social Enterprise Investment Fund	October 2010	£417,000		£417,000
Big Issue Invest (BII) Social Enterprise Investment Fund and Loan Fund	October 2010		£208,000	£208,000
Total: Big Issue Invest (BII) Social Enterprise Fund and Loan Fund		£417,000	£208,000	£625,000
Rathbone Greenbank	October 2010		£420,000	£420,000
Total: Rathbone Greenbank			£420,000	£420,000
Total Social Loan		£1,917,000		£1,917,000
Total Fixed Loan			£2,128,000	£2,128,000
Total Investment Raised		£1,917,000	£2,128,000	£4,145,000

The HCT case: Part 2 and 3

- **This is all highly confidential!!!!!!!!!!!!!!**
- Tried again in 2013 and were unsuccessful
- Unable to raise more capital as the company suffered a small loss, which raised questions
- Approached ClearlySo again in 2014/15 year—the challenge was to repay some debt coming due, raise more for growth and increase the investor base at an attractive cost
- **Three more phases of fundraising were executed and the total was more than twice as much as last time!**
- **The result was a highly complex structure with eight parties with three basic elements**

The HCT case: Part 2 and 3

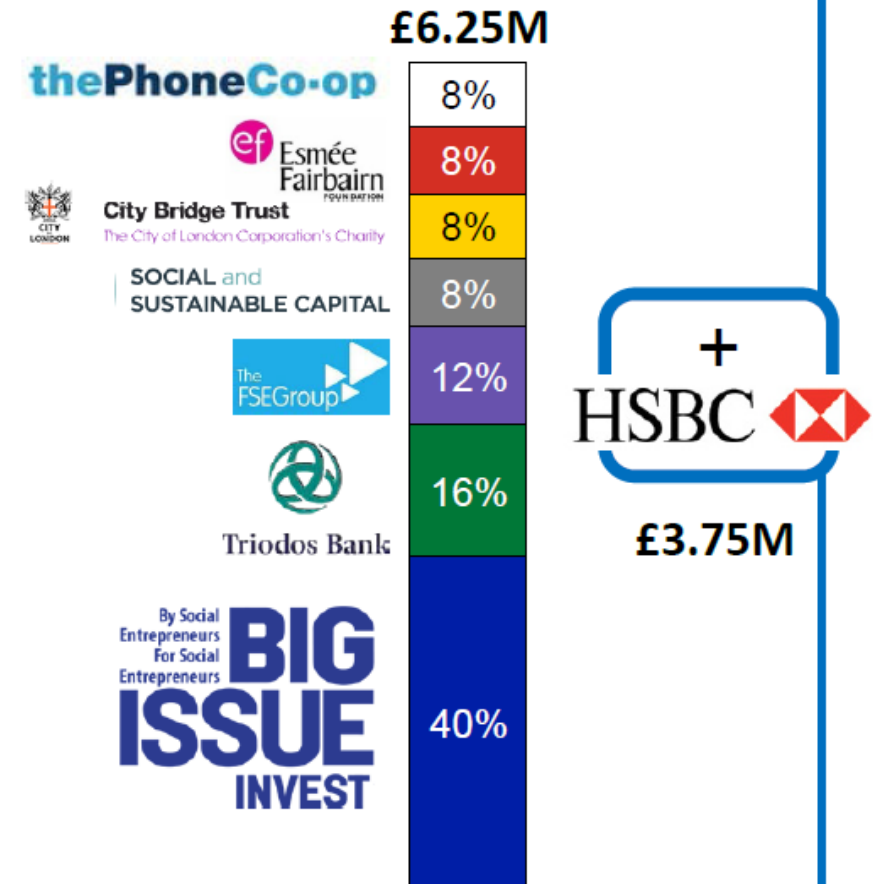
Results from 2010 financing:

- ✓ Raised £4m
- ✓ Repaid
- ✓ Revenue participation targets met
- ✓ Interest rate cap hit
- ✓ Social impact targets achieved

Use of funds in 2016 raise:

- Debt repayment
- New services
- Geographical expansion
- Scaling up existing services
- “War chest”

What came in:



HCT interest payments vary with impact metrics

		Month	Month	YTD	YTD	2015 FY
		actual	forecast	actual	forecast	forecast
Impact	• Pax trips to community groups	• 13,904	• 16,482	• 123,767	• 131,853	• 197,780
	• Pax trips to disadvantaged individuals	• 21,620	• 20,563	• 168,281	• 164,504	• 246,756
	• # successfully travel trained (on contract)	• 11	• 9	• 92	• 74	• 111
	• Individuals gaining qualifications (excl HCT)	• 8	• 55	• 346	• 444	• 666
	• Unemployed into employment	• 20	• 10	• 158	• 80	• 120

What are ClearlySo's future aspirations?

Leverage UK leadership to become European leader

- Already this is true by amount of capital raised
- Better value for clients seeking to raise capital and for investors
- ClearlySo has no medium term interest in North America or Asia and is not a developing market player
- The firm has developed strong relationships with organisations throughout continental Europe, and is open to partnering, especially in its angel investing activities
- On a personal basis, I have a strong connection to Eastern and Southern Europe (especially the Balkans and the Baltics) and am open to possibilities there

Help institutions measure the impact of their portfolios

- Evidence suggests investor interest in impact is growing but they are frustrated by inability to measure it in an acceptably robust manner
- Systems to assess or measure it are extremely expensive
- The private equity industry is the most neglected, even though they have the greatest capacity for influence
- ClearlySo will be launching a system to assist this segment towards the end of 2016

Cultivate new funds where market conditions demand

- Impact investment funds are growing fast to over £1.3bn in the UK alone, but are still a small share of all financial assets
- In the UK, Big Society Capital has acted as a catalyst, but its restrictions mean that it operates in the “sub-market return” space, where natural demand is lowest
- Investors are demanding impact and some progressive fund managers are catering to demand for market return products with impact (AXA IM, Cheyne, Circularity, Lombard Odier, Palatine)
- ClearlySo will identify funds to meet growing investor appetites and accelerate their development

Thank you!

Rodney Schwartz

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**What else
can I tell
you, or have
you any
questions?**